

INTERMEDIATE EXAMINATION

December 2017

P-5(FAC)
Syllabus 2016

Financial Accounting

Time Allowed: 3 Hours

Full Marks: 100

*Both the sections are to be answered subject to instructions given against each.
[All workings must form part of your answer.]*

Section-A

1. Answer the Following Questions:

- (a) Choose the most appropriate one from given four alternatives: 1×10=10
- (i) If an employee of the business files a legal suit on business, it is considered in the books as a
- (A) Legal Expense
 - (B) Liability
 - (C) Contingent Asset
 - (D) Contingent Liability
- (ii) At the end of the accounting year the capital expenditures are shown in the
- (A) assets side of the Balance Sheet.
 - (B) liabilities side of the Balance Sheet.
 - (C) debit side of the Profit and Loss A/c.
 - (D) credit side of the Profit and Loss A/c.
- (iii) Which of the following is not a method of charging depreciation?
- (A) Sinking Fund Method
 - (B) Sum of years Digit Method
 - (C) Working hours Method
 - (D) Asset's Life-cycle Method
- (iv) If average inventory is ₹ 1,25,000 and closing inventory is ₹ 10,000 less than opening inventory then the value of closing inventory will be
- (A) ₹ 1,35,000
 - (B) ₹ 1,15,000
 - (C) ₹ 1,30,000
 - (D) ₹ 1,20,000

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- (v) The Accommodation bill is drawn
- (A) to finance actual purchase or sale of goods.
 - (B) to facilitate trade transmission.
 - (C) when both parties are in need of funds.
 - (D) None of the above
- (vi) Balance of X's account in creditors ledger is transferred to X's account in debtors ledger, in this case
- (A) X's account in debtors ledger will be debited.
 - (B) X's account in creditors ledger will be debited.
 - (C) Suspense account will be debited.
 - (D) None of the above
- (vii) Ground rent or surface rent means
- (A) Minimum rent
 - (B) Maximum royalty payable
 - (C) Minimum royalty payable
 - (D) Fixed rent payable in addition to minimum rent
- (viii) Accounting standard in India are issued by
- (A) Government of India
 - (B) Reserve Bank of India
 - (C) The Institute of Chartered Accountants of India
 - (D) The Institute of Accounting Standard of India
- (ix) As on 31st March, 2017 debtors; and additional bad debts are ₹ 8,00,000 and ₹ 10,000 respectively. If the provision for bad debts is made at 5% on debtors then amount of such provision will be
- (A) ₹ 40,000
 - (B) ₹ 50,000
 - (C) ₹ 39,500
 - (D) ₹ 40,500

(x) Income and Expenditure Account is a

- (A) Nominal Account
- (B) Real Account
- (C) Personal Account
- (D) Artificial Personal Account

(b) Match the following in **Column-I** with the appropriate in **Column-II**:

1×5=5

	Column-I		Column-II
(i)	Noting Charges	(A)	Branch Accounts
(ii)	Stock and debtors Method	(B)	Piecemeal Distribution
(iii)	Work certified	(C)	Not-for Profit Organization
(iv)	Average clause	(D)	Royalty Accounts
(v)	Maximum Loss Method	(E)	Bill of Exchange
		(F)	Construction Contract
		(G)	Insurance Claims

(c) State whether the following statements given below are 'True' or 'False':

1×5=5

- (i) Memorandum joint venture account is prepared to find out amount due from co-venture.
- (ii) Receipts and Payments Account is prepared by adopting cash principle of accounting.
- (iii) As per AS-9 revenue from interest should be recognized on the time proportion basis.
- (iv) Bad debts recovered is credited to debtor's personal account.
- (v) New-partner pays premium for goodwill, which will be shared by old partners in their new profit sharing ratio.

(d) Fill in the blanks:

1×5=5

- (i) The _____ discount is not recorded in the books of accounts.
- (ii) Profit or Loss on revaluation is shared among the partners in _____ Ratio.
- (iii) At the time of goods sent to consignee, the proforma invoice is prepared by _____.
- (iv) Memorandum revaluation account is prepared when the _____ of assets and liabilities are not altered.
- (v) Realisation account is opened at the time of _____ of firm.

Section-B

Answer any five from the following.

Each question carries 15 marks.

15×5=75

2. The following is the Income and Expenditure Account of Gama Club for the year ended 31st March, 2017:

Income and Expenditure Account for the year ended 31st March, 2017

	₹		₹
To Salaries	19,500	By Subscription	68,000
To Rent	4,500	By Donation	5,000
To Printing	750		
To Insurance	500		
To Audit Fees	750		
To Games & Sports	3,500		
To Subscriptions written off	350		
To Miscellaneous Expenses	14,500		
To Loss on sale of Furniture	2,500		
To Depreciation:			
Sports Equipment	6,000		
Furniture	3,100		
To Excess of income over expenditure	17,050		
	73,000		73,000

Additional information:

	31-03-2016	31-03-2017
	₹	₹
Subscription in arrears	2,600	3,700
Advance Subscriptions	1,000	1,500
Outstanding expenses:		
Rent	500	800
Salaries	1,200	350
Audit Fee	500	750
Sports Equipment less depreciation	25,000	24,000
Furniture less depreciation	30,000	27,900
Prepaid Insurance	--	150

Book value of furniture sold is ₹ 7,000. Entrance fees capitalized ₹ 4,000. On 1st April, 2016 there was no cash in hand but Bank Overdraft was for ₹ 15,000. On 31st March, 2017 cash in hand amounted to ₹ 850 and the rest was Bank balance.

Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2017.

3. The following is the Balance Sheet of Chirag as on 31st March, 2015:

Liabilities	₹	Assets	₹
Capital Account	48,000	Building	32,500
Loan	15,000	Furniture	5,000
Creditor	31,000	Motor Car	9,000
		Stock	20,000
		Debtors	17,000
		Cash in hand	2,000
		Cash at Bank	8,500
	94,000		94,000

A riot occurred on the night of 31st March, 2016 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

- His sales for the year ended 31st March, 2016 were 20% higher than the previous year's. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2016 were for cash. There were no cash purchases.
- On 1st April, 2015 the stock level was raised to ₹ 30,000 and stock was maintained at this new level all throughout the year.
- Collection from debtors amounted to ₹ 1,40,000 of which ₹ 35,000 was received in cash, Business expenses amounted to ₹ 20,000 of which ₹ 5,000 was outstanding on 31st March, 2016 and ₹ 6,000 was paid by cheques.
- Analysis of the Pass Book revealed the Payment to Creditors ₹ 1,37,500, Personal Drawing ₹ 7,500, Cash deposited in Bank ₹ 71,500 and Cash withdrawn from Bank ₹ 12,000.
- Gross Profit as per last year's audited accounts was ₹ 30,000.
- Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.
- The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2016 and Balance Sheet as on that date.

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4. (a) (i) A limited has sold its building for ₹ 50 lakhs and the purchaser has paid the full price. The Company has given possession to the purchaser. The book value of the building is ₹ 35 lakhs. As at 31st March, 2017 documentation and legal formalities are pending. The Company has not recorded the sale. It has shown the amount received as advance. Do you agree with this treatment?

What accounting treatment should the buyer give in its financial statements?

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- (ii) Hello Ltd. purchased goods at the cost of ₹ 20 lakhs in October. Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at ₹ 5 lakhs. The expected sale value is ₹ 5.5 lakhs and a commission at 10% on sale is payable to the agent. What is the correct value of closing stock?

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(b) The Trial Balance of a concern has agreed but the following mistakes were discovered after the preparation of final Accounts.

- (i) No adjustment entry was passed for an amount of ₹ 2,000 relating to outstanding rent.
- (ii) Purchase book was overcast by ₹ 1,000.
- (iii) ₹ 4,000 depreciation of Machinery has been omitted to be recorded in the book.
- (iv) ₹ 600 paid for purchase of stationary has been debited to Purchase A/c.
- (v) Sales books was overcast by ₹ 1,000.
- (vi) ₹ 5,000 received in respect of Book Debt had been credited to Sales A/c.

Show the effect of the above errors in Profit and Loss Account & Balance Sheet.

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- (c) (i) Why is goodwill considered to be an intangible asset and not a fictitious asset?
- (ii) The Balance Sheet of a Partnership Firm had an Investment Fluctuation Reserve of ₹ 10,000. A new partner is admitted. Value of Investment is ₹ 60,000 against its book value of ₹ 70,000. What amount of the Investment Fluctuation Reserve will be distributed among partners?
- (iii) When does the Capital Account of a partner not show a debit balance in spite of regular losses incurred by the firm?
- (iv) At the time of dissolution of Partnership Firm realisation expenses amounted to ₹ 3,000 paid by Nisha, a partner who was to bear these expenses. What entry is required in the Books of the firm?

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5. (a) Snehal, Suchita and Sindhu were partners sharing profits and losses in the ratio of 3 : 2 : 1. The firm was dissolved on 31.03.2015. After transfer of assets and liabilities to Realisation A/c, the following transactions took place.

Give journal entries in the books on dissolution of the firm.

- (i) Suchita's Loan to the firm ₹ 30,000 was settled at ₹ 28,500.
- (ii) A creditor for ₹ 50,000, took over Machinery of Book value ₹ 40,000 at ₹ 35,000. The balance was settled in Cash.
- (iii) Workmen Compensation Reserve — ₹ 40,000. A liability equal to 60% of the Reserve was settled.
- (iv) Sindhu was to receive 5% of the value of assets realised as remuneration for completing the dissolution work and was to bear realization expenses. Realisation expenses were ₹ 5,500 that was paid by Sindhu. Assets realised ₹ 60,000.
- (v) The Balance Sheet disclosed a footnote, contingent liability for ₹ 5,000 in respect of a bill discounted. The bill was received from Megha. On the date of dissolution Megha was declared insolvent and was not able to pay the amount due. The bill had to be met by the firm.
- (vi) Loss on realization amounted to ₹ 24,000.

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- (b) The following details are available in respect of a business for a year.

Department	Opening Stock	Purchase	Sales
X	120 units	1,000 units	1,020 units at ₹ 20.00 each
Y	80 units	2,000 units	1,920 units at ₹ 22.50 each
Z	152 units	2,400 units	2,496 units at ₹ 25.00 each

The total value of purchases is ₹ 1,00,000. It is observed that the rate of Gross Profit is the same in each department. Prepare Departmental Trading Account for the above year. 8

6. (a) On 1st April, 2012, X Ltd. sells a Truck on hire purchase basis to X Transporters & Co. for a total purchase price of ₹ 18,00,000 payable as to ₹ 4,80,000 as down payment and the balance in three equal annual installments of ₹ 4,40,000 each payable on 31st March, 2013, 2014, and 2015. The hire vendor charges interest @ 10% per annum. You are required to ascertain the cash price of the truck for X Transporters & Co. Calculations may be made to the nearest rupee. 8
- (b) How will you show the following items in General Ledger Adjustment Account in Debtors Ledger and General Ledger Adjustment Account in Creditors Ledger? 7

	₹
Opening Balance of Debtors' Ledger	40,000
Opening Balance of Creditors' Ledger	20,000
Credit Sales	92,000
Credit Purchases	59,600
Transfer from Debtors' Ledger to Creditors' Ledger	6,000
Bill receivable endorsed to Creditors	8,000
Endorsed Bills dishonoured	2,000
Bad Debts written off (after deducting bad debts recovered ₹ 600)	4,400
Provision for Doubtful Debts	1,100
Provision for Discount on Debtors	2,000
Reserve for Discount on Creditors	4,000
Cash Sales	6,000
Cash Purchases	8,000
Bill Receivable Collected on maturity	10,000
Bills Receivable discounted	12,000
Bills Payable matured	14,000
Discount allowed	3,000
Discount received	1,200
Allowances from Creditors	6,400
Discount allowed to Debtors ₹ 1,000 was recorded as discount received from Creditors	
Closing Debtors Balance (As per General Ledger Adjustment Account)	1,20,000 (Cr.)
Closing Creditors Balance (As per General Ledger Adjustment Account)	60,000 (Dr.)

7. (a) The premises of X Ltd. caught fire on 22nd January, 2015 and the stock was damaged. The value of goods salvaged was negligible. The firm made up accounts to 31st March each year. On 31st March, 2014 the stock at cost was ₹ 13,27,200 as against ₹ 9,62,200 on 31st March, 2013.

Purchases from 1st April, 2014 to the date of fire were ₹ 34,82,700 as against ₹ 45,25,000 for the full year 2013-2014 and the corresponding sales figures were ₹ 49,17,000 and ₹ 52,00,000 respectively.

You are given the following further information:

- (i) In July, 2014, goods costing ₹ 1,00,000 were given away for advertising purposes, no entries being made in the books.
- (ii) The rate of gross profit is constant.

X Ltd. had taken an insurance policy of ₹ 5,50,000 which was subject to the average clause. From the above information, you are required to make an estimate of the stock in hand on the date of fire and compute the amount of the claim to be lodged to the insurance company. 10

- (b) List the significances of computerised accounting system. 5

8. Write short notes on *any three* of the following: 5×3=15

- (a) Objectives of Accounting
 - (b) Methods/ Criteria to the selection and application of Accounting policies
 - (c) Difference between sale and consignment
 - (d) Criticism of the decision of Garner vs. Murray
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